

Message Text

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INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
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SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
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P 202000Z APR 78
FM AMCONSUL QUEBEC
TO SECSTATE WASHDC PRIORITY 0000
INFO AMEMBASSY OTTAWA PRIORITY
AMCONSUL MONTREAL PRIORITY
AMCONSUL TORONTO PRIORITY

LIMITED OFFICIAL USE SECTION 1 OF 2 QUEBEC 0132

E.O. 11652: N/A
TAGS: ECON FIN CA
SUBJECT: COMMENTS ON FY 1978-1979 QUEBEC BUDGET

REF: QUEBEC 130

1. SUMMARY: TAX CUTS ANNOUNCED IN QUEBEC BUDGET (REFTTEL) WILL BE WELCOME RELIEF FOR ALREADY OVERTAXED QUEBEC VOTERS, BUT WILL ADD LITTLE NET STIMULUS TO QUEBEC'S SLACK ECONOMY DESPITE INCREASE IN DEFICIT OF NEARLY CD 300 MILLION. PARIZEAU PROBABLY DELIBERATELY OVER ESTIMATED REAL ECONOMIC GROWTH AND UNDERESTIMATED UNEMPLOYMENT, INFLATION, AND DEFICIT. BUDGET FINANCING NOT EXPECTED TO POSE MAJOR PROBLEMS THIS YEAR. BUDGET CONTAINED STRONG POLITICAL ELEMENTS, INCLUDING FULFILLMENT OF PQ PROMISES TO INCREASE DEGREE OF PROGRESSIVENESS IN TAXATION AND TAX INDEXATION, ALBEIT IN A LIMITED DEGREE. TAX BREAKS TO WEAK SECTORS WILL BE POPULAR WITH MAJORITY OF VOTERS, BUT REAL EFFECT MAY BE LESS THAN EXPECTED. LITTLE INDUCEMENT OFFERED TO PRIVATE INVESTMENT. GAP BETWEEN QUEBEC AND OTTAWA ON SALES TAX ISSUE REMAINS WIDE, AND MAY WELL
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RESULT IN CUTBACK OF PLANNED GOVERNMENT SPENDING IN QUEBEC.
END SUMMARY.

2. FORECASTS: PARIZEAU ESTIMATED IN BUDGET THAT QUEBEC ECONOMY WILL GROW BY 11 PERCENT IN NOMINAL TERMS IN 1978, OF WHICH ABOUT FOUR PERCENT WOULD BE REAL AND SEVEN PERCENT DUE TO INFLATION. DENIS BEDARD, ASSISTANT DEPUTY MINISTER OF

FINANCE IN CHARGE OF FORECASTING AND TAX ANALYSIS, TOLD EMBOFF PRIVATELY THAT FORECAST HE GAVE PARIZEAU WAS FOR REAL GROWTH OF 3.25 TO 3.5 PERCENT NOT 4 PERCENT USED IN BUDGET PRESENTATIONS. RAYMOND GARNEAU, QUEBEC LIBERAL PARTY CRITIC AND FORMER FINANCE MINISTER, INDEPENDENTLY ESTIMATES GROWTH AT 3.2 PERCENT. BASED ON EMBASSY OTTAWA'S FORECAST FOR REAL GROWTH IN CANADA OF UNDER FOUR PERCENT, BOTH ESTIMATES MAY BE OPTIMISTIC. INFLATION ESTIMATE OF SEVEN PERCENT ALSO SEEMS BRAVE. BEDARD SAID HIS AVERAGE UNEMPLOYMENT FORECAST FOR QUEBEC THIS YEAR WAS FOR "AT LEAST" 11 PERCENT, NOT THE 10.5 PERCENT FORECAST BY HIS MINISTER IN THE BUDGET.

3. FINANCING REQUIREMENT: SLOWER GROWTH THAN FORECAST, ONLY PARTLY OFFSET BY HIGHER INFLATION IN CALCULATING REVENUE ESTIMATE, PLUS OTHER DEVELOPMENTS (SEE BELOW) SUGGEST THE FINANCING REQUIREMENT WILL ALMOST CERTAINLY BE HIGHER THAN THE CD 1.25 BILLION FORECAST.

4. IMPACT ON GROWTH: QUEBEC'S OWN SOURCE REVENUE (NET OF FEDERAL TRANSFERS) WILL INCREASE ONLY SLIGHTLY SLOWER THAN PROJECTED EXPENDITURES. SPENDING ESTIMATES WILL BE UP 10.5 PERCENT OVER LAST YEAR ON A COMPARABLE ACCOUNTING BASIS, WHILE REVENUES WILL BE UP JUST UNDER 10 PERCENT ON THE PRESENT ACCOUNTING SYSTEM. BOTH ARE TWO OR THREE PERCENTAGE POINTS BELOW RATE OF INCREASE IN 1977. WITH SLOWER INCREASE IN SPENDING, AND SPENDING INCREASING ONLY SLIGHTLY FASTER THAN LIMITED OFFICIAL USE

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REVENUES, NOT MUCH STIMULUS TO GROWTH WILL COME FROM PROVINCIAL GOVERNMENT SECTOR.

5. PUBLIC SECTOR GROWTH. THE SPENDING INCREASE OF 10.5 PERCENT IS JUST LESS THAN THE ESTIMATED 11 PERCENT INCREASE IN NOMINAL GROSS PROVINCIAL PRODUCT (GPP), SO PUBLIC SECTOR GROWTH IS EXPECTED TO BE CHECKED, BUT NOT SIGNIFICANTLY REDUCED.

6. CONSUMPTION: PERSONAL TAX CUTS IN BUDGET WILL ABOUT OFFSET INCREASES IN EFFECTIVE TAX RATES DUE TO INFLATION, LEAVING REAL PERSONAL TAX RATES ABOUT THE SAME. THIS WILL ADD LITTLE TO REAL PERSONAL CONSUMPTION SPENDING.

7. SALES TAX REDUCTIONS: ELIMINATION OF EIGHT PERCENT PROVINCIAL SALES TAX ON HOTEL ROOMS WILL TAKE ABOUT CD 20 MILLION OFF HOTEL BILLS IN 1978 IF FULLY PASSED THROUGH. THIS SHOULD HAVE POSITIVE EFFECT ON QUEBEC'S HOTEL INDUSTRY, PLAGUED BY OVER-BUILDING,

HIGH COST STRUCTURE, AND CHANGES IN US TAX LAWS ON FOREIGN CONVENTIONS. REDUCTION OF GAS TAXES FOR MINING, FORESTRY. AND FARMS WILL HAVE MODEST IMPACT ON THESE WEAK SECTORS, BUT ALL SUCH CUTS WILL BE POLITICALLY POPULAR.

8. SALES TAX FIGHT WITH OTTAWA: THE STRUGGLE BETWEEN QUEBEC AND THE FEDERAL GOVERNMENT OVER THE NATURE AND FINANCING OF OTHER SALES TAX REDUCTIONS IS AS YET UNRESOLVED. ACCORDING TO BEDARD, THE PROVINCIAL GOVERNMENT IS A LONG WAY FROM ACCEPTING THE LATEST FEDERAL OFFER, WHICH WOULD NET QUEBEC ONLY ABOUT CD 40 MILLION INSTEAD OF THE CD 220 MILLION IT SEEKS FROM OTTAWA. BEDARD TOLD EMBOFF THAT, UNLESS OTTAWA CHANGES ITS POSITION, QUEBEC WILL PROBABLY FINANCE SALES TAX CUTS BY DECREASING SPENDING ELSEWHERE IN BUDGET.

9. THE SALES TAX FIGHT HAS LEFT QUEBEC BUREAUCRATS AND POLITICIANS ANGRY AT OTTAWA'S INTRUSIONS IN AREA OF SALES TAX WHICH IS, THEY POINT OUT, FULLY UNDER PROVINCIAL JURISDICTION. LIMITED OFFICIAL USE

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QUEBEC VIEWS OTTAWA'S PROPOSALS FOR ACROSS THE BOARD SALES TAX REDUCTIONS AS ABOVE ALL HELPING MANUFACTURING INDUSTRIES IN ONTARIO.

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LAB-04 SIL-01 OMB-01 ISO-00 NSC-05 SS-15 STR-07
CEA-01 PA-01 /092 W

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P 202000Z APR 78

FM AMCONSUL QUEBEC

TO SECSTATE WASHDC PRIORITY 1317

INFO AMEMBASSY OTTAWA PRIORITY

AMCONSUL MONTREAL PRIORITY

AMCONSUL TORONTO PRIORITY

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C O R R E C T E D COPY (SECTION 1 OF 3 VICE 1 OF 2)

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INDUCEMENT OFFERED TO PRIVATE INVESTMENT. GAP BETWEEN QUEBEC AND OTTAWA ON SALES TAX ISSUE REMAINS WIDE, AND MAY WELL RESULT IN CUTBACK OF PLANNED GOVERNMENT SPENDING IN QUEBEC. END SUMMARY.

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WHILE REVENUES WILL BE UP JUST UNDER 10 PERCENT ON THE PRESENT
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SPENDING, AND SPENDING INCREASING ONLY SLIGHTLY FASTER THAN
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POSITION, QUEBEC WILL PROBABLY FINANCE SALES TAX CUTS BY
DECREASING SPENDING ELSEWHERE IN BUDGET.

9. THE SALES TAX FIGHT HAS LEFT QUEBEC BUREAUCRATS AND
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POLITICIANS ANGRY AT OTTAWA'S INTRUSIONS IN AREA OF SALES TAX
WHICH IS, THEY POINT OUT, FULLY UNDER PROVINCIAL JURISDICTION.
QUEBEC VIEWS OTTAWA'S PROPOSALS FOR ACROSS THE BOARD SALES

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P 202000Z APR 78
FM AMCONSUL QUEBEC
TO SECSTATE WASHDC PRIORITY 1313
INFO AMEMBASSY OTTAWA PRIORITY
AMCONSUL MONTREAL PRIORITY
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LIMITED OFFICIAL USE SECTION 03 OF 03 QUEBEC 0132

13. TABLES.

A. QUEBEC FINANCIAL TRANSACTIONS, MILLIONS OF CANADIAN DOLLARS.
MINUS SIGN (-) INDICATES FINANCIAL REQUIREMENT.

FY 1977-78E FY1978-79F

BUDGET TRANSACTIONS:

REVENUE	10,835	12,300
EXPENDITURE	-11,505	-13,335

BALANCE OF BUDGET AND NON-BUDGET TRANSACTIONS	-715	-975
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LOAN REPAYMENTS	-240	-275
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TOTAL FINANCING REQUIREMENTS	-955	-1,250
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NEW BORROWINGS	1,042	1,163
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CHANGE IN WORKING CAPITAL	-87	87
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TOTAL FINANCIAL TRANSACTIONS	955	1,250
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B. NET DEBT POSITION, PROVINCE OF QUEBEC, AS OF MARCH 31,
MILLIONS OF DOLLARS (NOT INCLUDING PROVINCIAL CROWN CORPORATIONS
AND ENTERPRISES).

	1977	1978
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TOTAL	5,014.9	5,684.9
OF WHICH FOREIGN CURRENCY	1,419.3	1,796.9

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Message Attributes

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Current Classification: UNCLASSIFIED
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Draft Date: 20 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
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Disposition Reason:
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TAGS: ECON, EFIN, CA
To: STATE
Type: TE
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